

UPDATE ON BUSINESS PLAN AND FUNDING PLAN

CHSR Board Presentation

Sacramento, CA

August 25, 2011



2012 BUSINESS PLAN – TODAY'S TOPICS

1. The Need for High-Speed Rail in California
- ✓ 2. Implementing the System
3. Business Model Options
4. Project Revenues
5. Project Costs
6. Funding and Financing
7. Risks and Mitigation

PREVIOUS DISCUSSION

Implementation through Phasing

From

**Initial
Construction
Section [ICS]**

To

**Initial Operable
Section [IOS]**

To

**Completion of
Phase 1**

To

Phase 2



ENHANCED ECONOMIC BENEFIT ASSESSMENT

- The most comprehensive and well vetted economic benefit analysis to-date of California's HSR system being developed
- Results will reflect peer reviewed and approved travel demand model, updated inputs, and best practices from federal and state review agencies
- Statewide workshops were conducted in Bay Area, Central Valley, and Bay Area with leading academics, representatives of MPOs, COGs, economic development agencies, and other policy and planning groups, to present our economic impact methodologies and receive feedback
- Part of extensive outreach program

KEY ELEMENTS OF ECONOMIC ANALYSIS: A STRONG RETURN ON THE INVESTMENT

- Benefit-cost ratio. Discounted public benefits over the extended life of the investment are expected to be well above the discounted costs
 - Public benefits include travel time and reliability savings both for train users and highway and air travelers; also includes environmental and safety benefits, energy savings, and other factors
 - Full costs include both initial capital construction, yearly operations and maintenance and periodic rehabilitation and replacement of equipment and systems.

ECONOMIC BENEFITS FROM CONSTRUCTION: MULTIPLE LAYERS OF JOB CREATION

- **During the construction phase**
 - Direct
 - Indirect
- **Through Operations and Maintenance**
 - Direct
 - Indirect
- **In the larger economy**
 - Spread across a wide range of sectors
 - Benefits felt statewide
 - Job impacts will increase over time, as highway and aviation congestion worsen and the travel benefits of high speed rail increase

WIDER ECONOMIC BENEFITS – PRODUCTIVITY, COMPETITIVENESS, AND EMPLOYMENT

- After construction, implementation of the high speed rail system will help California's economy become more efficient, productive and competitive.
 - Improved connectivity of economic centers and transportation hubs
 - Congestion in the transportation system will be reduced
 - Business will have much greater access to labor and other markets
 - Key economic sectors and clusters – such as technology -- will expand output and hire more workers as business firms can better access legal, financial and other business services, and can work more effectively with research institutions, vendors and suppliers, and others

THE PRICE OF NOT INVESTING IN HSR

- Population growth and other factors will continue to drive the need for greater capacity in the State's transportation system.
- Providing the same capacity as HSR through other means* would require an estimated >\$100 billion of investment in:
 - Thousands of lane-miles of highway
 - Dozens of additional gates at airports in California
 - New airport runways
 - Far more land than needed for HSR

* Assumes that such alternatives are feasible

BUSINESS MODEL OPTIONS

- **Under all business model options government plays lead organizational role**
- **Options for private involvement to meet two objectives**
 - ✓ Contain costs and mitigate risk
 - ✓ Generate more funds
- **Private investment opportunity driven by HSR ridership**
 - ✓ Early phases require public investments to construct
 - ✓ Later phases can leverage ridership revenues and public investment to attract private investment
- **Business model**

BUSINESS MODEL OPTIONS

Functions and Entities Needed to Deliver the System

Governance



Infrastructure Procurement



Infrastructure Operations



Train Operations



Ownership

Signals & Systems integration

Train Dispatch/
Signaling

Passenger Service

Safety/ Standards

Superstructure Construction

Infrastructure Maintenance

Vehicle Maintenance

Contract Supervision

Substructure Construction

Power Provision

Vehicle Procurement

Build Stations &
Depots

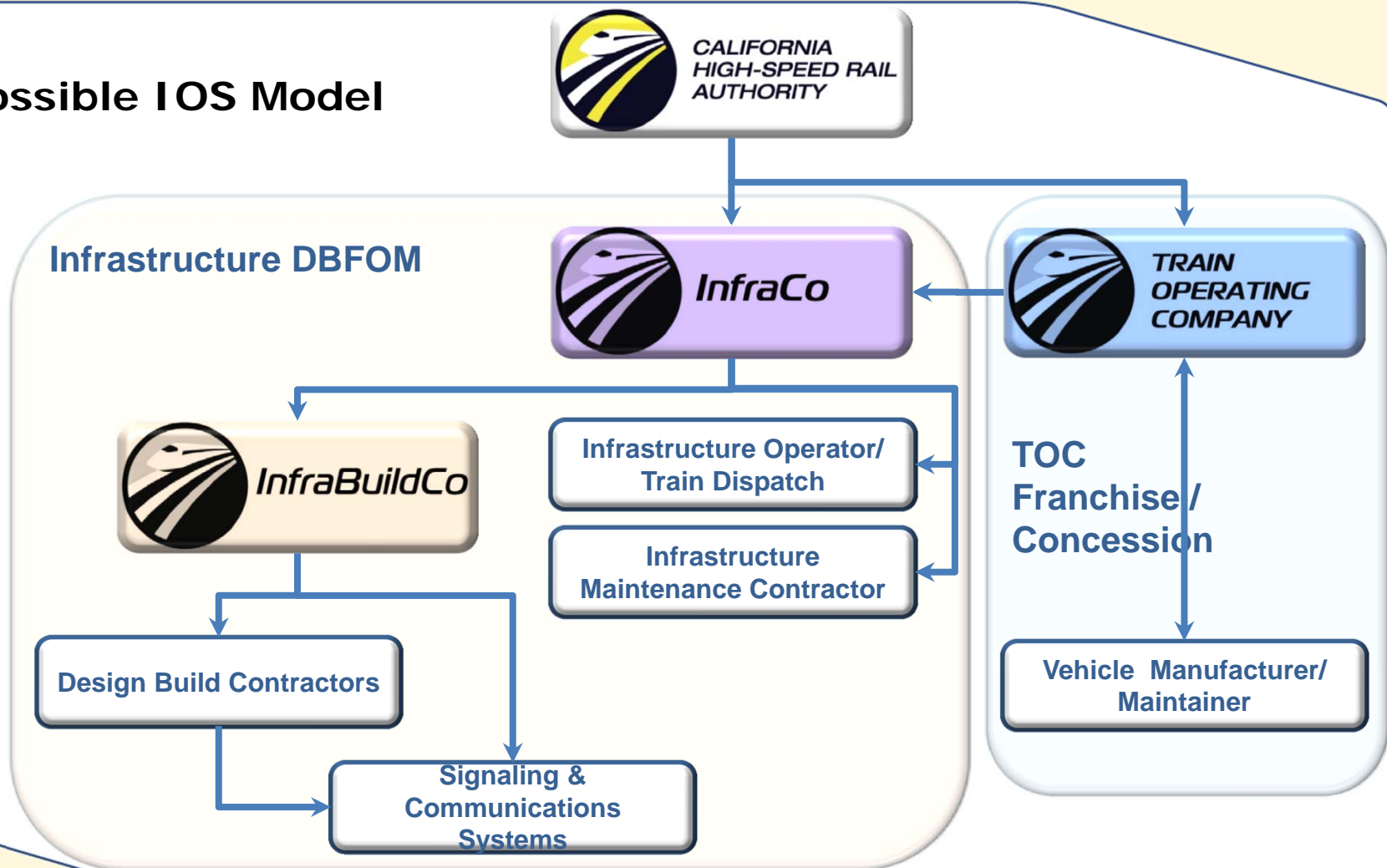
Station O&M

BUSINESS MODEL OPTIONS

- **Timing and structure of private participation will evolve with phasing plan**
- **Business plan will outline decision points, key criteria and preferred options:**
 - ✓ Initial Construction Section – delivered with D-B contractor
 - ✓ Initial Operating Section – train operations performed by private-sector or public-sector third party
 - ✓ Bay to Basin – situation may allow for greater private sector participation in operations and investment
 - ✓ Phase 1 – all operations performed by private-sector third parties in tandem with private investment

BUSINESS MODEL OPTIONS

➤ Possible IOS Model



FUNDING & FINANCING OVERVIEW

➤ Funding → Cash flows → Financing

- ✓ Funding needed to build the project until achieving revenue-generating operations
- ✓ Funds for core infrastructure will be governmental – state, local and federal
- ✓ Upon reaching revenue-generating operations, current projections show positive cash flow
- ✓ Possibility exists to leverage future ridership revenues for financing portions of future capital costs

➤ Private sector investment will require ridership from Central Valley connection to Northern and/or Southern California

FUNDING & FINANCING - SOURCES

- **First section - “Initial Construction Section [ICS]”**
 - **fully funded from federal and state government sources**
 - ✓ \$3.33 B Federal ARRA and FY 10
 - ✓ \$2.77 B State Prop. 1A
- **Next section - “Initial Operating Section [IOS]” - requires additional funding**
 - ✓ State requiring matching funds at $\geq 50\%$ for each construction section
 - ✓ HSR success in Calif. and U.S. dependent on additional federal support
- **The plan is long and ambitious – but only the 1st step is needed now**

FUNDING & FINANCING – Potential Future Sources

Need approx. \$3-\$4 billion/year for 15+ years

Source	Types of Funding / Financing
State	<ul style="list-style-type: none">✓ G.O. Bonds (\$9 B total capacity; \$2.8 B to be allocated for ICS)✓ Other potential new state revenues to “leverage” for financing (e.g., GHG reduction credits, etc.)
Federal	<ul style="list-style-type: none">✓ Initial \$3.3 B secured✓ Existing appropriation and grant programs – can leverage but are not enough✓ Need new committed programs within approx. 4 years that could support full funding grant agreement (e.g., trust fund/reauthorization); tax credit bonds (leveraging state bonds); commuter rail programs in urban corridors)
Local	<ul style="list-style-type: none">✓ Locally funded station development (e.g., SF, Anaheim, LA)✓ Transit-oriented development and station-area retail has minor role✓ Locally approved sales tax for matching funds could be explored for later phases
Private	<ul style="list-style-type: none">✓ Limited appetite for “greenfield” ridership risk transfer✓ Revenue-backed financing✓ Other project-generated revenues (e.g., advertising etc.)

FUNDING PLAN

- **Required under Proposition 1A for requested appropriation of bond proceeds pursuant to Streets and Highways Code section 2704.08, subsection (c)**
 - ✓ Requires a Funding Plan for the “Usable Segment” in which the Authority is requesting the investment of bond proceeds
- **Either of the two options for the “Initial Operating Section [IOS]” would be a suitable “Usable Segment”**
 - ✓ Both IOS–North and IOS–South include the “Initial Construction Section [ICS]” already selected by the Board as a first priority for construction
 - ✓ The federal funding received for the ICS addresses key statutory criteria for giving “...priority to those corridors or usable segments thereof that are expected to require the least amount of bond funds as a percentage of total cost of construction”
 - ✓ Presently, the Usable Segments that best satisfy this criteria are those that include the ICS because no other potential corridor or usable segment thereof has received significant federal or other source of non-bond funding
- **Funding Plan coming to the Authority in October along-side the draft Business Plan is expected to present required information for both Usable Segments to preserve Authority’s future options and enable commencement of the ICS, which is common to both**

NEXT STEPS

- **Continued stakeholder dialogue to refine Business Plan**
- **Submit Funding Plan to Authority Board, Oct. 3, 2011**
- **Submit Funding Plan to the Legislature, Peer Review Group, and Director of Finance, Oct. 10, 2011 (requirement of Prop 1A)**
- **Submit Draft Business Plan to Authority Board and released for public review, latest Oct. 14, 2011**
- **Public hearing at Dec. 1, 2011 Authority Board meeting**
- **Submit Final Business Plan to Legislature by Jan. 1, 2012**
- **Governor's Budget released Jan. 10, 2012**